

ANNUAL REPORT

FOR THE FISCAL YEAR ENDED MARCH 31st, 1967

file

Codville Distributors Ltd.

and subsidiary companies



New Saskatchewan Distribution Centre located in Saskatoon



I.G.A. Foodliner under construction, Saskatoon.



Recently acquired Cash & Carry Wholesale, Winnipeg.



I.G.A. Foodliner being built in Winnipeg.



I.G.A. Foodliner planned for Yorkton, Saskatchewan.

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Codville Distributors Ltd.

ANNUAL
REPORT
1966 - 67

HIGHLIGHTS OF THE YEAR

| | Year Ended | | |
|-----------------------------------|--------------------|--------------------|---------------|
| | March 31st 1967 | March 31st 1966 | % Increase |
| Sales..... | \$25,481,236 | \$23,977,288 | 6.3 |
| Income—before taxes | 412,699 | 312,352 | 32.1 |
| Taxes on Income..... | 188,324 | 84,300 | 123.4 |
| Net Income..... | 224,375 | 228,052 | (1.6) |
| Net Income per Class A share..... | 43.7c | 44.3c | — |
| Cash Flow..... | 321,279 | 281,988 | 13.9 |
| Number of Shareholders..... | 917 | 902 | 1.7 |
| Number of Employees..... | 247 | 265 | (6.8) |
| Number of Stores—I.G.A..... | 73 | 68 | 7.4 |
| — Much More..... | 212 | 174 | 21.8 |

PRESIDENT'S REPORT

TO THE SHAREHOLDERS:

The year ending March 31, 1967, can be recorded as the year your Company experienced the full impact of present day corporate tax rates. This is demonstrated by the fact, that while income before taxes increased 32.1% (\$100,034), taxes on income increased 123% (\$104,024), resulting in a moderate decline in net income of \$3,677, or 1.6%. Despite this decline, it is believed that an analysis of the accompanying statements reveals that substantial improvement has been achieved in your Company's operations.

Sales are the highest in history and for the first time exceed \$25,000,000. Pre-tax income also established a record, and increased by over \$100,000 to surpass the \$400,000 level.

During the first 9 months of the year, certain retail expansion plans were delayed due to the inability of real estate development companies to obtain mortgage financing for the construction of shopping centres. This slowed sales growth to some degree.

I.G.A. stores are continuing to make inroads into the market and are increasing sales at a satisfactory rate.

SALES:

| | % | Increase |
|------|--------------|----------|
| 1967 | \$25,481,236 | 6.3 |
| 1966 | 23,977,288 | 11.4 |
| 1965 | 21,520,544 | 13.4 |
| 1964 | 18,975,776 | 7.8 |
| 1963 | 17,596,366 | (.4) |

Consolidated sales of \$25,481,236 exceed last year's previous record of \$23,977,288 by \$1,503,948 or 6.3%.

During the year 9 I.G.A. stores were opened, 1 was closed, and 3 were transferred to the Company's Much More group. Your Company now supplies 73 I.G.A. stores, of which 44 are serviced by the Manitoba Division, and 29 by the Saskatchewan Division.

In the last half of the year the Company commenced organizing the Much More group of stores in Saskatchewan. This merchandising plan, which has operated successfully for several years in Manitoba, is designed to assist the medium size independent retailer increase sales and profits. At March 31, 1967, 44 Much More stores were operating in Saskatchewan, and 168 in Manitoba. The Much More merchandising plan replaces the Save-A-Dollar program that previously existed in Saskatchewan.

Last year the Company was servicing 325 non-affiliated customers in Northern Saskatchewan. During the year a large number of these customers have become affiliated with the Company on a pre-planned purchasing program. It is the intention of the Company to sell to non-affiliated accounts through its Cash & Carry Depots, and to service franchised customers from its main Distribution Centres.

INCOME BEFORE TAXES:

| | | % Increase |
|------|-----------|------------|
| 1967 | \$412,699 | 32.1 |
| 1966 | 312,352 | 5.9 |
| 1965 | 294,844 | 19.6 |
| 1964 | 246,446 | 108.7 |
| 1963 | 118,074 | 526.4 |

Income, prior to taxes, is the highest in the Company's history and surpassed 1966's previous record by \$100,347 or 32.1%. This year income before taxes totalled \$412,699 compared with \$312,352 last year.

In 1967 income, prior to taxes, is 1.62% of sales; last year it was 1.30%.

Improvement in operations was achieved in all three operating Divisions—Manitoba, Saskatchewan and Retail.

TAXES ON INCOME:

Corporate taxes have more than doubled and are \$188,324, an increase over last year of \$104,024 or 123.4%, when taxes on income amounted to \$84,300. Your Company paid tax at the rate of 45.6% of taxable income this year, while in 1966 the tax rate was 27%. No significant change in the current tax rate is expected in the foreseeable future.

In the year ending March 31, 1966, the Company had certain non-recurring expenses in connection with public financing and the installation of the I.G.A. merchandising plan in the Saskatchewan Division. Although these expenses reduced taxes, they were charged directly to retained earnings.

NET INCOME:

| | | % Increase |
|------|-----------|------------|
| 1967 | \$224,375 | (1.6) |
| 1966 | 228,052 | 26.6 |
| 1965 | 180,144 | 23.4 |
| 1964 | 146,837 | 115.7 |
| 1963 | 68,079 | 379.8 |

As a result of the substantial increase in taxes, net income declined \$3,677 or 1.6%. This year net income is \$224,375, compared with \$228,052 the previous year. Net income per Class A Share is 43.7c, and was 44.3c in 1966. The number of outstanding shares in both years was 452,156 Class A Shares and 93,492 Class B Shares.

Net income as a per cent of sales is .88%, compared with .95% the previous year. Return on shareholders' equity is 13% this year, and was 13.2% in 1966.

Shareholders' equity per share increased by 22c, and amounts to \$3.63 per share, compared with \$3.41 in 1966.

DIVIDENDS:

In the fiscal year 1967, your Company paid dividends of \$67,823, or 15c per Class A Share. Dividends amounted to 30.2% of this year's net income.

On May 12, 1967, your Directors declared a dividend of 15c per Class A Share, payable at the rate of 8c on May 30, to shareholders of record on May 17, 1967; and 7c on November 30, to shareholders of record on November 15, 1967.

FINANCIAL POSITION:

CASH FLOW:

| | | % Increase |
|------|-----------|------------|
| 1967 | \$321,279 | 13.9 |
| 1966 | 281,988 | 5.6 |
| 1965 | 267,040 | 21.6 |
| 1964 | 219,641 | 67.6 |
| 1963 | 131,028 | 233.0 |

WORKING CAPITAL:

| | | Current Ratio |
|------|------------|---------------|
| 1967 | \$ 619,665 | 1.46:1 |
| 1966 | 581,284 | 1.54:1 |
| 1965 | 1,038,462 | 1.89:1 |
| 1964 | 400,250 | 1.34:1 |
| 1963 | 558,441 | 1.46:1 |

Cash flow from operations amounted to \$321,279 for the year in review, an increase of \$39,291 or 13.9%. Cash flow per Class A Share is 61.4c, compared with 54.3c in 1966, an increase of 7.1c, or 13%.

Working capital is \$619,665 compared with \$581,284 the previous year, an increase of \$38,381 or 6.6%. During the year \$557,252, including the sale of fixed assets, consisting of land, buildings and equipment in the amount of \$232,166, was added to working capital. Working capital was reduced by \$518,871, which includes the purchase of fixed assets for \$227,410, and additional loans to dealers of \$176,068.

The cost of fixed assets, all of which are debt free, total \$1,461,144 (depreciated value \$932,785), compared with \$1,531,030 (depreciated value \$1,043,850) in 1966. The decrease in fixed assets is due to an increase in accumulated depreciation and the sale of a retail store building, now leased by the Company.

Shareholders' equity increased by \$122,103 to \$1,983,091, and exceeds total liabilities by \$544,048. Your Company is in a strong financial position.

It is planned that expansion in the current fiscal year will be financed by the sale of certain lands and buildings, cash flow from operations and bank loans.

EXPANSION:

On May 6, 1967 your Company purchased the assets of Hazelwood-Davis Co. Ltd., which is the largest wholesale Cash & Carry in the Company's marketing area. Sales of this Company exceeded \$2,500,000 in its last fiscal year. The acquisition of this business is part of the expansion of the Company's Manitoba Division.

A new Distribution Centre for the Saskatchewan Division, being built in Saskatoon, is scheduled for occupancy early in 1968. The building is leased for 15 years, and exceeds 56,000 square feet in area. It has facilities for supplying groceries, confectionery, drugs, dairy products and frozen foods.

Three I.G.A. foodliners, with a combined area of 31,000 square feet, all of which will be located in shopping centres, are currently planned. Two of these stores will be in the Saskatchewan Division, and one in Manitoba.

In 1963 your Company opened the first discount food store in Manitoba. Consumer acceptance of this type of merchandising has been encouraging. Plans have been made to double the size of this discount food operation to 22,000 square feet.

OUTLOOK:

Considerable opportunity for continued growth in the Company's marketing area still exists, as many metropolitan areas and small towns remain unserved by I.G.A. stores. It is an objective of your Company to penetrate these markets on a planned expansion program.

As our marketing area becomes more industrialized, thus lessening the dependence of the economy on agriculture, the economy becomes more stable. This, combined with a higher rate of farm earnings, is increasing per capita income, which increases food store sales.

As a result of the recent acquisition of Hazelwood-Davis Co. Ltd., and the retail expansion that is taking place by your Company, sales for the current fiscal year should increase at a more rapid rate than was realized in the year ending March 31, 1967. The outlook for future growth is encouraging.

RECOGNITION:

The success of Codville Distributors Ltd. is the direct result of the relationship it has with its people—the ability and effort put forth by its employees, the loyalty and support of its retailers and shareholders, and the co-operation of its suppliers and other associates. It is a privilege to record our appreciation.

On behalf of the Board of Directors

Winnipeg May 26, 1967

B. H. CODVILLE,
President

CONSOLIDATED STATEMENT OF INCOME

Year ended March 31, 1967

| | 1967 | 1966 |
|--|---------------------|---------------------|
| Sales..... | <u>\$25,481,236</u> | <u>\$23,977,288</u> |
| Income before the undernoted items..... | 569,600 | 469,829 |
| Directors' and officers' remuneration..... | 44,500 | 38,740 |
| Depreciation..... | 96,904 | 102,120 |
| Interest, long-term debt..... | 4,667 | 4,855 |
| Other interest..... | 10,830 | 11,762 |
| | <u>156,901</u> | <u>157,477</u> |
| Income before taxes..... | <u>412,699</u> | <u>312,352</u> |
| Taxes on income (Note 2)..... | <u>188,324</u> | <u>84,300</u> |
| Net Income..... | \$ 224,375 | \$ 228,052 |

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year ended March 31, 1967

| | 1967 | 1966 |
|---|-------------------------|-------------------------|
| Retained earnings, beginning of year..... | <u>\$356,450</u> | <u>\$249,353</u> |
| Net income..... | <u>224,375</u> | <u>228,052</u> |
| | <u>580,825</u> | <u>477,405</u> |
| Deduct: | | |
| Loss on sale of fixed assets..... | 9,405 | — |
| Installation costs of I.G.A. program in Saskatchewan..... | — | 48,184 |
| Dividends paid on Class A shares..... | 67,823 | 31,651 |
| Other deductions (Note 2)..... | 25,044 | 41,120 |
| | <u>102,272</u> | <u>120,955</u> |
| Retained earnings, end of year..... | <u>\$478,553</u> | <u>\$356,450</u> |

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year ended March 31, 1967

| | 1967 | 1966 |
|---|-------------------|-------------------|
| Source of funds: | | |
| By operations: | | |
| Net income..... | \$ 224,375 | \$ 228,052 |
| Add Depreciation, not involving a current outlay of funds.... | 96,904 | 102,120 |
| | <hr/> | <hr/> |
| Sale of fixed assets..... | 321,279 | 330,172 |
| Sale of investment in subsidiary company..... | 232,166 | 13,582 |
| Payments on mortgage receivable..... | — | 24,713 |
| | <hr/> | <hr/> |
| | 3,807 | 3,914 |
| | <hr/> | <hr/> |
| | 557,252 | 372,381 |
| Application of funds: | | |
| Additions to fixed assets..... | 227,410 | 477,467 |
| Increase in loans to dealers, secured..... | 176,068 | 208,801 |
| Special refundable tax..... | 12,578 | — |
| Reduction in notes and mortgage payable..... | 8,373 | 9,608 |
| Installation of I.G.A. program in Saskatchewan..... | — | 48,184 |
| Adjustment, prior years' income taxes..... | 21,214 | 25,324 |
| Dividends..... | 67,823 | 31,651 |
| Sundry..... | 5,405 | 28,524 |
| | <hr/> | <hr/> |
| | 518,871 | 829,559 |
| | <hr/> | <hr/> |
| Increase (decrease) in working capital..... | 38,381 | (457,178) |
| | <hr/> | <hr/> |
| Working capital at beginning of year..... | 581,284 | 1,038,462 |
| | <hr/> | <hr/> |
| Working capital at end of year..... | \$ 619,665 | \$ 581,284 |
| | <hr/> | <hr/> |
| Current assets..... | \$1,956,822 | \$1,650,770 |
| Current liabilities..... | 1,337,157 | 1,069,486 |
| | <hr/> | <hr/> |
| | \$ 619,665 | \$ 581,284 |
| | <hr/> | <hr/> |

Codville Dist

and subsidiary

(Incorporated under)

CONSOLIDATED

As at Mar

ASSETS

| | 1967 | 1966 |
|--|--------------------------|--------------------------|
| Current assets: | | |
| Cash..... | \$ — | \$ 117,773 |
| Accounts receivable, less allowance for doubtful accounts..... | 646,592 | 503,636 |
| Inventories, at lower of cost and market..... | 1,220,619 | 970,881 |
| Prepaid expenses..... | 89,611 | 58,480 |
| | <hr/> \$1,956,822 | <hr/> \$1,650,770 |
| Other assets: | | |
| Investment in Marchan Co. Ltd. (I.G.A. Canada), at cost..... | 51,670 | 51,670 |
| Loans to dealers, secured..... | 384,869 | 208,801 |
| Mortgage receivable..... | 36,093 | 39,900 |
| Rental deposit..... | 40,000 | 40,000 |
| Special refundable tax..... | 12,578 | — |
| Life insurance, cash value..... | 7,315 | 5,740 |
| | <hr/> 532,525 | <hr/> 346,111 |
| Fixed assets, at cost: | | |
| Land..... | 158,568 | 207,815 |
| Buildings..... | 147,321 | 267,321 |
| Equipment..... | 1,066,229 | 969,193 |
| Leasehold improvements..... | 89,026 | 86,701 |
| | <hr/> 1,461,144 | <hr/> 1,531,030 |
| Less Accumulated depreciation | 528,359 | 487,180 |
| | <hr/> 932,785 | <hr/> 1,043,850 |
| Trademark and goodwill..... | 2 | 2 |
| | <hr/> \$3,422,134 | <hr/> \$3,040,733 |

butors Ltd.

companies

(laws of Canada)

BALANCE SHEET

1967

LIABILITIES

| | 1967 | 1966 |
|--|-------------------|-------------------|
| Current liabilities: | | |
| Bank advances, secured..... | \$ 96,829 | \$ — |
| Accounts payable | 1,080,517 | 1,024,168 |
| Corporation income taxes | 151,124 | 36,318 |
| Long-term debt due within one year | 8,687 | 9,000 |
| | <hr/> \$1,337,157 | <hr/> \$1,069,486 |
| Long-term debt (Note 3)..... | <hr/> 101,886 | <hr/> 110,259 |
| Total liabilities | <hr/> 1,439,043 | <hr/> 1,179,745 |

SHAREHOLDERS' EQUITY (Note 1)**Capital stock (Note 4):****Authorized:**

850,000 Class A shares, no par value.
 150,000 Class B shares, no par value.

Issued:

| | | |
|------------------------------|-----------------|-----------------|
| 452,156 Class A shares | 1,442,175 | 1,442,175 |
| 93,492 Class B shares | 62,363 | 62,363 |
| | <hr/> 1,504,538 | <hr/> 1,504,538 |

Retained earnings.....

| | | |
|--|-------------------|-------------------|
| | 478,553 | 356,450 |
| | <hr/> 1,983,091 | <hr/> 1,860,988 |
| | <hr/> \$3,422,134 | <hr/> \$3,040,733 |

The accompanying notes are an integral part of these financial statements.

APPROVED ON BEHALF OF THE BOARD

B. H. CODVILLE DIRECTOR

A. E. MARTIN DIRECTOR

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- Basis of consolidation:** 1. The consolidated balance sheet has been prepared on the basis of a pooling of interests wherein:
- (a) the value attributed to the issued shares of Codville Distributors Ltd. is equivalent to the paid up value of the shares of The Codville Company, Limited received in exchange therefor and cash received for 150,000 Class A shares sold to the public.
- (b) the retained earnings are equivalent to the total retained earnings of Codville Distributors Ltd. and subsidiary companies.
- Taxes on income:** 2. Taxes on income for 1967, as shown in the consolidated statement of income, have been reduced by \$11,700 as a result of the intention to claim for tax purposes capital cost allowance of \$23,000 in excess of depreciation recorded for the year in the accounts. The accumulated amount to date by which taxes otherwise payable have been so reduced is \$53,700.
- Taxes on income for 1966, as shown in the consolidated statement of income, were reduced by \$66,450 as a result of claiming for tax purposes \$92,282 of non-recurring expenses included in the consolidated statement of retained earnings and by claiming for tax purposes depreciation of \$38,000 in excess of that provided for the year in the accounts.
- During the year ended March 31, 1967, The Codville Company, Limited received a refund of \$35,470 in full settlement of a prior claim for refund of \$55,982. The difference (\$20,512) plus legal fees (\$3,830) are included in "other deductions" of \$25,044 in the consolidated statement of retained earnings.
- Long-term debt:** 3. Details of long-term debt are:
- | | Interest
Rate | |
|--|------------------|-----------------|
| Notes payable: | | |
| On demand after November 30, 1970..... | 4% | \$ 35,000 |
| \$2,000 per annum until 1968 and \$8,500 per annum 1969 to 1973, inclusive..... | 3% | 46,500 |
| \$1,500 per annum 1973 to 1977, inclusive..... | 5% | 7,500 |
| | | <hr/> 89,000 |
| Mortgage payable: | | |
| \$8,160 per annum until February 1, 1970..... | 6% | 21,573 |
| | | <hr/> 110,573 |
| Less Portion payable within one year | | 8,687 |
| | | <hr/> \$101,886 |
- Capital stock:** 4. The rights attaching to the shares of Codville Distributors Ltd. are:
- Class A—one vote per share; annual preferential non-cumulative dividends of 15c per share; further dividends payable equally to Class A and Class B shareholders.
- Class B—ten votes per share; convertible to an equal number of Class A shares.
- At March 31, 1967, 185,000 Class A shares were reserved for issue as follows:
- 150,000 for conversion of Class B shares
 - 10,000 for the exercise of share purchase warrants which are outstanding at \$6 per share until May 31, 1970
 - 25,000 for the executive stock option plan.
- Executive stock options, which are contingent on continuous employment to the option date, may be granted to officers and executives for a period of five years. The option price may not be less than 90% of the market price on the date they are granted. At present there are options outstanding with executive employees to purchase 10,500 Class A shares at \$5.45 each prior to May 26, 1970.
- Leases:** 5. The minimum annual rentals (exclusive of taxes, insurance and other occupancy charges) under lease obligations for store locations and warehouse facilities amount to \$261,000.
- It is expected that annual rental revenue of \$127,000 will be received from stores that have been sublet to dealers.
- Contingent liabilities:** 6. There are contingent liabilities of \$84,000.
- Subsequent event:** 7. The Company signed an agreement to purchase on May 6, 1967, a wholesale cash and carry consisting of accounts receivable, inventory and equipment for an amount of approximately \$230,000. Of this amount \$30,000 is for equipment.

AUDITOR'S REPORT

To the Shareholders of
Codville Distributors Ltd.

We have examined the consolidated balance sheet of Codville Distributors Ltd. and subsidiary companies as at March 31, 1967, and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of the companies as at March 31, 1967, and the results of operations and source and application of funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

THORNE, GUNN, HELLIWELL & CHRISTENSON,

Winnipeg, Canada, May 1, 1967.

Chartered Accountants

Codville Distributors Ltd. and subsidiary companies

FIVE YEARS IN REVIEW

| | 1967 | 1966 | 1965 | 1964 | 1963 |
|---|--------------|--------------|--------------|--------------|--------------|
| Sales..... | \$25,481,236 | \$23,977,288 | \$21,520,544 | \$18,975,776 | \$17,596,366 |
| Depreciation..... | 96,904 | 102,120 | 86,897 | 72,804 | 62,949 |
| Income—before taxes..... | 412,699 | 312,352 | 294,844 | 246,446 | 118,074 |
| Taxes on Income..... | 188,324 | 84,300 | 114,700 | 99,609 | 49,995 |
| Net Income..... | 224,375 | 228,052 | 180,144 | 146,837 | 68,079 |
| Net Income as a Percentage of Sales..... | .88 | .95 | .84 | .77 | .39 |
| Cash Flow..... | 321,279 | 281,988 | 267,040 | 219,641 | 131,028 |
| Working Capital..... | 619,665 | 581,284 | 1,038,462 | 400,250 | 558,441 |
| Current Ratio..... | 1.46:1 | 1.54:1 | 1.89:1 | 1.34:1 | 1.46:1 |

A RÉSUMÉ ON CODVILLE DISTRIBUTORS

THE COMPANY:

Commencing operation in 1888, the Company pioneered in wholesale food distribution in Manitoba, Saskatchewan and North Western Ontario. In 1905 The Codville Company Limited was incorporated, and to this day the name is synonymous with fair and progressive dealings with hundreds of independent retailers in the Company's marketing area.

In the early 1900's, limited transportation facilities and inadequate highways presented distribution problems, therefore, it was necessary to establish numerous warehouses to serve a relatively small, widely dispersed population. During the initial stages of development, warehouses were located in seven prairie towns and cities, and Company salesmen solicited business from the surrounding independent retailers, restaurants and institutions.

In the early 1950's, the rapid expansion of the corporate chains and the advent of the supermarket were seriously affecting sales of many independent retailers. It became apparent that if this trend continued, it was only a matter of time before the wholesaler, supplying independent retailers, would lose sales.

To combat this trend, the Company realized it must join an organization that had the facilities and know-how to assist independent retailers to compete successfully with the large corporate chains. After extensive investigation, it found the answer in joining the largest voluntary independent group in the world, the Independent Grocers' Alliance, and in 1955 it acquired the I.G.A. Franchise for Manitoba, Saskatchewan and North Western Ontario.

The objective of The Codville Company, as a food distributor, was to increase efficiency and lower operating costs so it could supply its affiliated retailers on a low cost basis, and I.G.A. stores, in turn, could sell merchandise competitively with corporate chains, and realize an adequate gross margin.

Consequently, new one storey warehouses were developed, more efficient methods of operation adopted, and modern material handling equipment purchased. Operating efficiency has continually improved, and today operating costs, as a percentage of sales, are approximately half of what they were in 1955.

In the new fiscal year, the Company will service its customers from three modern Distribution Centres and two Cash & Carry Depots, with a combined floor area of 168,000 square feet, located in Winnipeg, Manitoba; Saskatoon and Prince Albert, Saskatchewan.

To gain additional retail knowledge and develop available retail store locations, Codville formed a Retail Division in the early 1960's. The Company now owns six supermarkets, and sales in this Division represent over 20% of total sales.

In the year ending March 31, 1966, Codville Distributors Ltd. was incorporated and became a public Company. Public financing has provided additional capital for continued expansion. The Company is now owned by over 900 shareholders located in 9 Canadian Provinces and 2 foreign countries, and its shares are listed on the Toronto and Winnipeg Stock Exchanges.



70,000 square foot, Manitoba Distribution Centre, located in Winnipeg.



56,000 square foot Saskatchewan Distribution Centre being constructed in Saskatoon.



Efficient material handling methods reduce operating costs.



Part of Company truck fleet.



Recently acquired Cash & Carry Wholesale, Winnipeg.

I.G.A. MERCHANDISING PLAN:

The I.G.A. merchandising plan is designed to assist independent retailers to compete successfully with corporate chains, and to grow in sales and profits. This is accomplished by supplying the independent retailer with the advantages of mass purchasing and merchandising programs, numerous low cost services to improve efficiency at retail, and the latest technical operational knowledge.

I.G.A. places the independent retailer in a competitive position, which in some respects is more favourable than that of the corporate chain. In addition to the advantages of a high volume, low cost, mass merchandising plan, the retailer possesses the advantages of on the job owner-management, flexibility and speed in decision making, personalized customer service, and the best incentive program that exists. Every dollar the independent retailer earns is his own.

In return, for the advantages offered by the I.G.A. plan, the retailer is committed to concentrate his merchandise purchases through his sponsoring wholesale distributor. This highly efficient, yet flexible, method of operation has resulted in increased sales for both retailer and distributor.

In conjunction with the I.G.A. Franchise, the Company sponsors and services a second group of stores known as Much More. For the present, these stores are unable to meet the requirements of I.G.A. with respect to store size and sales volume. As Much More stores are upgraded, to meet I.G.A. standards, they will be encouraged to join this merchandising plan.

I.G.A., with a sales volume in excess of Three Billion Dollars, and over 5,000 stores, is the largest voluntary food chain in the world. I.G.A. was founded in 1926, in the United States, and has grown consistently in the face of the most severe corporate chain store competition. I.G.A. came to Canada in 1951. Today there are over 800 stores in 9 Canadian Provinces, and sales are well in excess of Four Hundred Million Dollars.

I.G.A. SERVICES:

Codville assists retailers to increase sales and profits, by offering the following services to its I.G.A. members:

- Low Cost Grocery Supply—Enables retailer to compete in selling prices and realize an adequate gross margin.
- Low Cost Meat Supply—I.G.A. buyers select meat for quality, confirmation, and buy in volume for lower prices.
- Low Cost Produce Supply—I.G.A. buyers buy in volume for lower cost and improved quality.
- Retail Pricing Service—Establishes retail prices for I.G.A. stores to ensure competitive position and adequate gross margin.
- Weekly Merchandising Program—Enables retailer to follow a planned merchandising program to back advertising and increase sales and profits.
- Continuous Advertising in all Mediums—Promotes I.G.A. image and brings customers to I.G.A. stores.
- Retail Supervision and Counselling—Guides retailer in operational methods for increased sales and profits.
- Store Engineering Service—Assists retailer in store design, equipment and stock layout for improved traffic control, increased sales and gross margins.
- Store Site Selection—Assists retailer in selecting store locations through feasibility studies.
- Financing—Assists retailer in financing expansion and improving operational facilities.
- Retail Accounting—Provides regular operating statements and advice on operational weaknesses.
- Management Counselling—Offers advice on long term planning and overall development.



Independently owned I.G.A. Foodliner in Greater Winnipeg.



Store engineer plans efficient attractive stores for comfortable shopping.



A well displayed Produce Department in an independently owned I.G.A. Foodliner.



I.G.A. meat buyer selects red brand beef for quality and price.



I.G.A. TableRite Meat Department, offers quality, service and value.



Company owned I.G.A. Foodliner in Winnipeg, Manitoba.



Checkout operation during the peak business period.



The Company's Merchandising Committee plans future promotions for increased sales and profits.



Stores back up promotions with attractive mass displays.

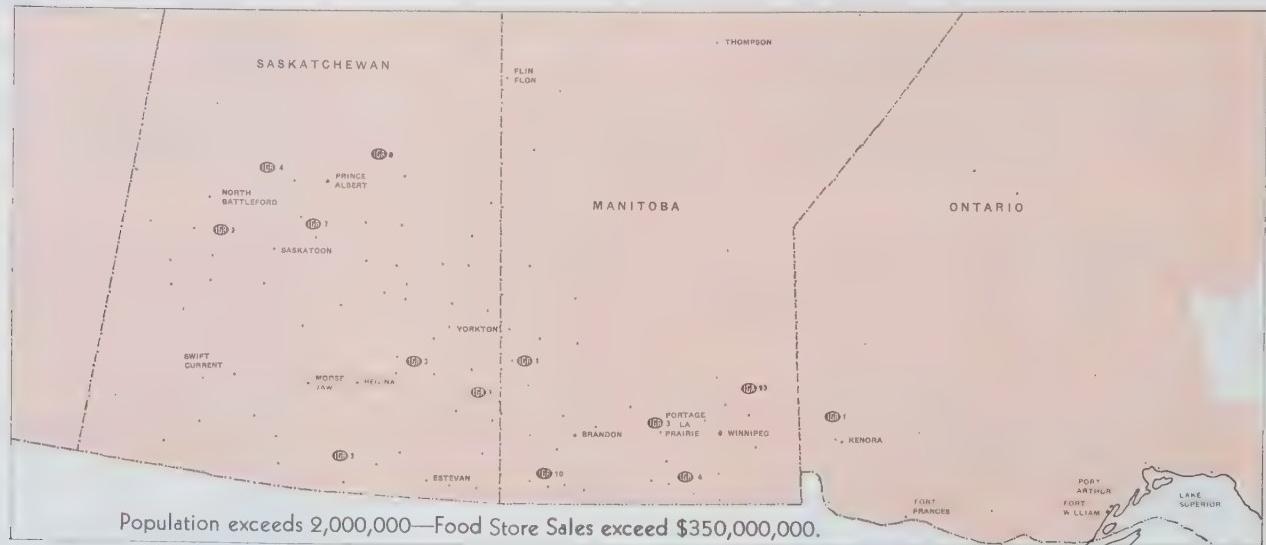
RETAIL DIVISION:

Codville believes that a Company cannot successfully sponsor a voluntary independent food chain unless it has a thorough knowledge of problems that exist in retail stores, and the ability to give practical assistance in overcoming these problems. The Company's Retail Division, in addition to generating sales and profits, provides this source of knowledge. It also provides the facilities to experiment in new merchandising techniques. This benefits the Company's independent customers, as both new operating methods and merchandise can be tested without disturbing the operation of the franchised retailer. Once a new idea has proven to be effective, the results are passed on to all I.G.A. stores.

The Retail Division provides the Company with facilities to develop desirable retail locations should an independent retailer not be available. If the Company was not prepared to grow in this manner, it would lose a number of potentially good locations to its competitors.

It is the policy of the Company to sell merchandise and provide services to its own stores for exactly the same costs it does to its franchised retailers.

MARKETING AREA:



ANALYSIS OF MARKETING AREA AND ESTIMATED POTENTIAL FOR I.G.A. GROWTH

| TOWNS AND CITIES POPULATION | TOTAL | | MANITOBA | | SASKATCHEWAN | | NORTHWESTERN ONTARIO | |
|--------------------------------|----------------------------------|---|----------------------------------|---|----------------------------------|---|----------------------------------|---|
| | Number of Towns and Cities | Estimated Potential Number of IGA Stores |
| 500,000 and over..... | 1 | 30 | 1 | 30 | — | — | — | — |
| 100,000 - 150,000..... | 3 | 30 | — | — | 2 | 20 | 1 | 10 |
| 25,000 - 50,000..... | 3 | 13 | 1 | 5 | 2 | 8 | — | — |
| 10,000 - 25,000..... | 8 | 16 | 2 | 4 | 4 | 8 | 2 | 4 |
| 5,000 - 10,000..... | 8 | 8 | 3 | 3 | 3 | 3 | 2 | 2 |
| 1,000 - 5,000..... | 88 | 88 | 30 | 30 | 50 | 50 | 8 | 8 |
| TOTAL | 111 | 185 | 37 | 72 | 61 | 89 | 13 | 24 |



Management training session is part of Company's personnel development program.



Personnel Manager interviewing employee.



Shopping with confidence at I.G.A.

PERSONNEL DEVELOPMENT:

The success of Codville Distributors is dependent upon the ability, loyalty and effort put forth by its employees, retailers and directors. Fully realizing this, a continuous effort is being made to strengthen, in ability and depth, the people who, each in their own way, but collectively, are responsible for the growth of the Company. The challenge presented by the numerous growth opportunities offers an unlimited scope for employees and retailers.

Training programs in management, selling and retail operations are conducted regularly. Incentive is created through the payment of bonuses, based on results, to employees who are directly responsible for sales and profits. The Company pension plan, group insurance plan and other fringe benefits, together with opportunities for advancement, offer

inducement and security to employees. A stock option plan exists for the benefit of proven executives.

COMPANY OBJECTIVES:

The objective of Codville Distributors Ltd. is to obtain a larger share of total food sales in the Company's marketing area.

The Company faces this challenge with understanding and confidence. Understanding that competition is keen and will become more severe. Confidence that, through the efforts of its employees and retailers, the Company will grow by, increasing sales in existing stores, the franchising of new independent retailers, the construction of new stores, and acquisition of, or merging with existing companies. In addition to growth through retail development, possibilities for further growth exist in the restaurant and institutional market, which to this date has been untapped.

Codville Distributors Ltd.

and subsidiary companies

HEAD OFFICE

1835 SARGENT AVENUE, WINNIPEG 21, MANITOBA

DIRECTORS

James P. Catty

Bruce H. Codville

John Coté

Donald H. Koyl

Arthur E. Martin

Thomas W. Meredith

Reeh Taylor

OFFICERS

B. H. Codville, President

A. E. Martin, Vice-President and Treasurer

J. F. R. Taylor, LL.B., Secretary

REGISTRAR AND TRANSFER AGENT

Eastern & Chartered Trust Company, Toronto, Winnipeg and Saskatoon

AUDITORS

Thorne, Gunn, Helliwell & Christenson

BANKERS

The Royal Bank of Canada

LISTED ON

Toronto Stock Exchange

Winnipeg Stock Exchange

Codville Distributors Ltd.

A N N U A L R E P O R T

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